Report on NAR's Meetings with Large Lenders to Discuss Originations and Servicing Issues

Bank of America Home Loans

Wells Fargo Home Mortgage

Chase Home Mortgage

CitiMortgage

Prepared by NATIONAL ASSOCIATION of REALTORS®

November 15, 2010

SUMMARY

NAR is meeting with several of the largest national mortgage lenders in an effort to communicate REALTOR® concerns and discuss how we can work together to make significant improvements to both the origination and short sale processes. These meetings mark a new phase of the relationship between NAR and lenders. The goal is to increase our mutual success and help support market recovery.

In each meeting, lenders and REALTORS® have agreed to work in the following areas:

Transparency
REALTORS need to understand each lender's policies for underwriting loans, valuing property, selecting brokers for REO listings, and deciding whether to approve a short sale.

Service
Having a single point of contact is an extremely important to improve service to the borrower, short seller, and the real estate agent. NAR is urging all lenders to adopt this approach.

Balance
FHA and the government sponsored enterprises (GSEs: Fannie Mae and Freddie Mac) have become over-focused on safety at the expense of their mission. NAR urges lenders to advocate a return to a reasonable center, now that credit policies have over-corrected.

Speed
When a borrower applies for a loan and receives a conditional approval, the conditions are often impossible to meet. It would be better to decline the loan and allow all parties to move on. Short sale approvals often take months. HAFA and other short sales programs should be implemented quickly.

Accuracy
Lenders are aware that problems related to the application of new appraisal guidelines have skewed some appraisals. NAR continues to raise these issues with the lenders, regulators, FHA, and the GSEs and seek solutions.

Performance/Compensation
Real estate professionals work extremely hard and for many months on a successful short sale. NAR urges lenders to make commissions policies more transparent and to agree not to reduce commissions at or shortly before closing. At the same time, NAR acknowledges that lenders waste time processing short sales that are not real offers, and we urge our members not to participate in this practice.

Lenders also are monitoring performance of REO listing brokers and will take steps to resolve problems.

DETAILED REPORT

In response to intense concern raised by REALTORS® about the state of the housing and mortgage markets, especially with respect to lender policies on originations, short sales, and REOs, NAR's elected leadership met with the leaders of Bank of America Home Loans on July 7, 2010, Wells Fargo Home Mortgage on August 26, 2010, and Chase Home Mortgage on October 26, 2010. A meeting with CitiMortgage is planned for early 2011.

These meetings give NAR an opportunity to discuss with the four largest lenders the problems REALTORS® face every day when working to get deals to the closing table.

Both banks sought to assure NAR that they understand the problems our members are facing and are working hard to address them. BofA seeks to provide a great customer experience, solutions for distressed homeowners, and, of course, profitable growth. Wells Fargo briefed NAR on its originations approach, including the responsible lending principles that were adopted at the beginning of the crisis and resulted in three years of essentially no growth at the company. However, those principles have laid the groundwork for more growth now and fewer distressed mortgages to resolve.

The banks do not debate that there is a lot of room for improvement. NAR is not yet seeing improvement, and communicated that reality to the banks. We have resolved to work more closely together on solutions.

NAR discussed a number of key principles for addressing existing problems:

<u>Transparency is Key</u>

- Too often, from the REALTOR® standpoint, lender and servicer decisions are made in a "black box" and appear to be inconsistent and, at times, irrational. While NAR understands that lenders have rational policies in place, these are not well-understood outside of those entities. If the lenders and the GSEs disclosed more detail about their policies for underwriting loans, valuing property, selecting brokers for REO listings, and evaluating and approving a short sale, REALTORS® would be able to close more deals—to the benefit of everyone involved. As noted by lenders, for the most part, the underwriting policies are determined by FHA, Fannie Mae, and Freddie Mac.

- NAR has offered to post links on Realtor.org to bank information, so that our members can learn more about what they need to do to move a contract to closing in the shortest possible time. NAR has already posted Wells Fargo's REALTOR® Short Sale Guide:

  http://www.realtor.org/wps/wcm/myconnect/e5dd7d804e01f067be0abf4eb13ae60f/wells+fargo+short+sale+guide+updated+4610.pdf?mod=ajperes

Bank of America has launched a new site which houses extensive short sale education materials and webinars for real estate professionals:

Bank of America's Real Estate Agent Resource Center

http://bankofamerica.com/realestateagent

Selling Your Home in a Short Sale by Bank of America

http://homeloanhelp.bankofamerica.com/en/short-sale.html

Chase Home Mortgage has a Chase Homeownership Center: Short Sale & Alternatives website:

https://www.chase.com/chf/mortgage/hrm_otheralt"

- Transparency alone will not solve the problems. NAR also has urged lenders to assess their requirements and, wherever possible, simplify their policies and rules for implementing these policies.

Need for Speed

- Questionable delays characterize many segments of today's mortgage market. The Lenders report they have hired and are continuing to hire more staff and otherwise working hard to speed the process. At least one of the lenders has set up teams that work exclusively on purchase loans (as opposed to distressed sales, including short sales), so first time homebuyers and other buyers can have their applications processed expeditiously. Lenders are also working with the mortgage investors (who own the mortgages and set the rules, including when to approve a short sale), seeking broader authority for the servicer to decide how to handle distressed properties. With most short sales, the final approval still remains in the hands of the investor and other third parties, which can contribute significantly to lengthy delays. With broader authority, servicers will be able to establish more uniform, and more transparent, rules that will expedite decision-making.

- Having a single point of contact is extremely important from the standpoint of the borrower, short seller, and the real estate agent. Some lenders use this approach, but NAR will continue to urge this practice throughout the industry. Many times, the customer service representative who answers the 800 number must start from ground zero and reassess every step that has been taken so far. A tremendous amount of time is wasted with this approach.

- Although many borrowers are preapproved for a loan, that preapproval often is meaningless. As one bank explained, regulators do not allow a preapproval to equal a commitment because, without knowing the particular property and its value, there is too much uncertainty for the lender to make a commitment.

- When a borrower applies for a loan and receives conditional approval, the conditions are often impossible to meet. It would be better just to acknowledge that fact and decline the loan, so all parties can move on.

- Wells Fargo offers a closing guarantee. For qualified purchase transactions, it promises to close the loan on or before the closing date in the purchase contract or send the borrower a check for the first month's principal and interest payment.

<u>Make Credit Available to More Creditworthy Borrowers</u>

- The GSEs and FHA have tightened credit so much in response to the housing crisis that they now are contributing to the sluggish recovery. NAR believes everyone involved in the lending industry should reassess current policies and modify them so more creditworthy borrowers are approved for loans.

- NAR, of course, does not support making loans that are not consistent with sustainable homeownership. Along with a few others, NAR started warning the industry in 2005 about the extreme riskiness of payment option adjustable rate mortgages (ARMs), teaser rate ARMs, and no-doc loans, but these warnings had little effect. However, when mortgages insured by FHA or purchased by the GSEs in the last few years are described as "pristine," we think FHA and the GSEs are becoming over-focused on safety, at the expense of their missions. NAR urges a return to a reasonable center.

- Credit for condo purchases is a special problem. Extra fees and a series of policy restrictions have doomed whole buildings in many areas to long-term vacancy. NAR has experienced some success in this area. Fannie Mae has raised the unit cap on investor borrowing and both Fannie Mae and Freddie Mac have adopted special rules for the unique challenges faced in the Florida markets. Much more needs to be done. If no progress is made, the damage to the condo market will hurt the value of properties already insured by FHA or owned or guaranteed by the GSEs, resulting in more losses to their portfolios, not fewer.

<u>Make Appraisals More Accurate and Compensate Properly</u>

- REALTORS® are extremely concerned about inaccurate appraisals. Too often, appraisals fall short of the value REALTORS® believe is supported by the market. This can be a particular problem in a market that has bottomed or started to recover. Markets with large numbers of distressed sales (short sales and REOs), also present challenges for appraisers, who should not include distressed sales as comps without adjustment. REALTORS® report too many examples of appraisers working in their markets without knowing that market (the "geographic competency" issue). Bank of America shared its new geographic proximity policy which it believes will help alleviate this issue.

- Appraisers complain that since the Home Valuation Code of Conduct (HVCC), their compensation has been slashed as the importance of Appraisal Management Companies (AMCs) has increased. Bank of America stated that it compensates appraisers within industry norms.

- Lenders are well aware of these issues and report they are working to address these problems. A sound appraisal is in the interest of everyone involved in the transaction, including the lender, the seller, and the buyer. NAR will continue to raise these appraisal issues with lenders, regulators, FHA, and the GSEs and seek solutions. The Dodd-Frank Wall Street Reform and Consumer Protection Act is landmark legislation for the appraisal industry and will affect many of these issues. Among other things, the legislation requires regulation of appraisal management companies, establishes new standards for appraisal independence, and sunsets the HVCC.

Short Sales and REOs (Bank-Owned Properties)

- The Home Affordable Foreclosure Alternatives Program (HAFA) short sale program is not working—at least not yet. The front-line servicing staff knows little about it, and HAFA is resulting in extremely few short sales. This may be because it is overly complex and rigid, or because the servicers are simply not able to keep up with all the programs and the frequent changes made by the Treasury Department, FHA, and the GSEs. Wells Fargo estimates that about 90 percent of HAFA applicants are unable to complete a HAFA short sale because the property, the loan, or the borrower does not qualify. The most common reason is that the property is vacant and HAFA requires owner occupancy (with a limited exception for some job transfers). Lenders acknowledge that the main reform of the HAFA program—identifying, up front, the required minimum net proceeds—is an important principle that can improve their own proprietary programs.

- On the positive side, even if HAFA does not work, the lenders all have their own short sales programs. Wells Fargo encourages real estate professionals and homeowners to submit requests for a short sale as soon as possible so work can begin to determine if a short sale is appropriate. Bank of America is undertaking a cooperative short sale pilot program that includes identifying the required net proceeds up-front to facilitate both marketing the property and approval of the short sale once an executed sale contract is obtained. Bank of America reported that it has reduced the average time for processing a short sale to under 60 days.

- One problem lenders face in the short sale arena is weeding out "straw buyers." Lenders believe they are wasting time processing short sales that are fake offers to determine what offer price the bank will approve when a real buyer makes an offer. While this behavior is understandable in light of the extreme frustration with the delays getting a decision whether to approve a sales contract, it is inappropriate. NAR urges its members not to participate in this technique.

- Last-minute attempts to reduce commissions are a continuing source of problems with short sales. HAFA seeks to address this issue by setting the commission up front, so the broker may decide then whether to accept the amount, attempt to negotiate it with the servicer, or decline the listing. In proprietary short sales, lenders have various policies, and private mortgage insurance companies and investors also weigh in. NAR continues to make the point that it makes no sense to cut the compensation of the real estate professional, who has had to work extremely hard and for many months on a successful short sale. NAR urges lenders to make commissions policies more transparent and to treat real estate professionals fairly by agreeing not to reduce commissions at or shortly before closing.

- REOs also are a critical problem facing the housing market. Sometimes, real estate brokers have so many REO listings that they are unable to market and show the property, assess all offers, and give the best offer to the bank. Like short sales, until the last few years, REOs were an extremely rare problem and the ramp-up at the banks has been a challenge. Lenders have assured NAR that they are monitoring the performance of REO listing brokers and taking steps, when appropriate, to resolve problems.

- REO volume is likely to increase as more homeowners fail to qualify for a loan modification or default on modified loans. These homeowners will then typically seek a short sale. If that does not work, the bank will end up owning more properties either through a deed-in-lieu of foreclosure or a foreclosure.

Dodd-Frank Wall Street Reform and Consumer Protection Act

- Lenders discussed potential unintended consequences of the Dodd-Frank Act. The risk-retention provisions will be given close attention. While NAR has long touted the benefits of standard 30-year and 15-year fixed rate mortgages and traditional ARMs (with reasonable annual and lifetime caps), we do not think those should be the only mortgages on the market. Consumers have a wide variety of needs and circumstances. For those who can appropriately take the risk, other types of mortgages can be appropriate.

- Another potential risk is the possibility of over-regulation to protect consumers so extensively that they will end up having to pay much more for mortgages and other financial products.
- The Dodd-Frank Act creates uncertainty and higher costs for the lending industry, and it will take years before it is fully implemented and all the important questions are answered.

NEXT STEPS

The meetings between NAR and the lenders have been extremely amicable. They have served the objective, which is to communicate REALTOR® concerns, better understand how we are both working on these problems, and discuss how we can work together to make significant improvements that change the reality for REALTORS®, lenders, and servicers.

Better communication and education on both sides are needed, and both sides commit to work towards improvements in these areas.

These meetings make a new phase of the relationship between NAR and lenders. The goal is to increase the success of both of our businesses.